Term Paper: Ben Bernanke

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# Abstract

The foundations of modern banking research were laid by Ben Bernanke, Douglas Diamond and Philip Dybvig in the early 1980s. Through statistical analysis and historical source research, Bernanke demonstrated how failing banks played a decisive role in the global depression of the 1930s. Bernanke’s research shows that bank crises can potentially have catastrophic consequences. This insight illustrates the importance of well-functioning bank regulation.

The period known as the [Great Moderation](https://www.federalreservehistory.org/essays/great_moderation) came to an end when the decade-long expansion in US housing market activity peaked in 2006 and residential construction began declining. In 2007, losses on mortgage-related financial assets began to cause strains in global financial markets, and in December 2007 the US economy entered a recession. That year [several large financial firms experienced financial distress](https://www.federalreservehistory.org/essays/support_for_specific_institutions), and many financial markets experienced significant turbulence. In response, the Federal Reserve provided liquidity and support through a [range of programs](https://www.federalreservehistory.org/essays/fed_credit_programs) motivated by a desire to improve the functioning of financial markets and institutions, and thereby limit the harm to the US economy.

When thinking about Economic Contributions to stabilize US Economy in modern era, first name comes in the list is Ben Bernanke. He was instrumental in stimulating the U.S. economy after the [2008 banking crisis](https://www.investopedia.com/terms/c/credit-crisis.asp) that sent the economy into a downward spiral.

He took an aggressive and experimental approach to restore confidence in the financial system. One of the multiple strategies that the Fed applied to curb the global crisis was enacting a [low-rate policy](https://www.investopedia.com/terms/l/low-interest-rate-environment.asp) to stabilize the economy. Under the tutelage of Bernanke, the Fed slashed the benchmark interest rates near to zero. By reducing the [federal funds rate](https://www.investopedia.com/terms/f/federalfundsrate.asp), banks lend each other money at a lower cost, and in turn, can offer low-interest rates on loans to consumers and businesses.

This research paper is focused on Ben Bernanke and his contributions to stabilize economy crisis.

# 1. Introduction

Ben Bernanke’s term as Federal Reserve (Fed) Chairman recently ended, but his term as a member of the Board of Governors does not expire until 2020. It is rare for someone to remain on the Board after stepping down from the Chairmanship, but it should come as no surprise that Bernanke has not left the Federal Open Market Committee. His fascination with business cycles and the role of monetary policy in mitigating them is longstanding and motivated his course of academic study as well as his actions as a policymaker.

Given Bernanke’s understanding of the Great Depression, the transmission of monetary policy and price movements, and the effects of business cycles on investment, his actions confronting the Great Recession should pose few mysteries to followers of his published writings. Overall, his career displays a remarkable degree of consistency, contrary to the assertions of some existing literature on the subject reviewed below.

Ben Bernanke, in full Benjamin Shalom Bernanke, (born December 13, 1953, [Georgia](https://www.britannica.com/place/Georgia-state), U.S.), American economist who served as chairman of the Board of Governors of the [Federal Reserve System](https://www.britannica.com/topic/Federal-Reserve-System) (“the Fed”), the [central bank](https://www.britannica.com/topic/central-bank) of the [United States](https://www.britannica.com/place/United-States), from 2006 to 2014.

### Headshot of Ben Bernanke in front of a black marble wall.

Bernanke grew up in Dillon, [South Carolina](https://www.britannica.com/place/South-Carolina), where his father worked as a pharmacist and his mother as a teacher. He graduated summa cum laude in [economics](https://www.britannica.com/topic/economics) from [Harvard University](https://www.britannica.com/topic/Harvard-University) (1975) and earned a Ph.D. from the [Massachusetts Institute of Technology](https://www.britannica.com/topic/Massachusetts-Institute-of-Technology) (MIT; 1979). His first professorial appointment was at [Stanford University](https://www.britannica.com/topic/Stanford-University), where he taught economics from 1979 to 1985.

He became a full professor in 1985 when he moved to [Princeton University](https://www.britannica.com/topic/Princeton-University), and he served as a visiting professor at both [New York University](https://www.britannica.com/topic/New-York-University) and MIT. Widely published on a range of economic issues—including [macroeconomics](https://www.britannica.com/topic/macroeconomics), [monetary policy](https://www.britannica.com/topic/monetary-policy), the [Great Depression](https://www.britannica.com/event/Great-Depression), and business cycles—Bernanke was awarded both a Guggenheim and a Sloan fellowship, and in 2001 he became editor of the American Economic Review.

The following year he was appointed to the Board of Governors of the Fed, and he became noted for thorough research and diplomacy when opinions among the governors differed. His political strengths were also evident in early 2005 when he was named chairman of the President’s Council of Economic Advisers.

The Federal Reserve has provided unprecedented monetary accommodation in response to the severity of the contraction and the gradual pace of the ensuing recovery.  In addition, the financial crisis led to a range of major reforms in banking and financial regulation, [congressional legislation](https://www.federalreservehistory.org/essays/dodd_frank_act) that significantly affected the Federal Reserve. It was an epic financial and economic collapse that cost many ordinary people their jobs, their life savings, their homes, or all three.

# Background

Bernanke was born in Augusta, Georgia, and was raised on East Jefferson Street in Dillon, South Carolina. His father Philip was a pharmacist and part-time theater manager. His mother Edna was an elementary school teacher. Bernanke has two younger siblings. His brother, Seth, is a lawyer in Charlotte, North Carolina. His sister, Sharon, is a longtime administrator at Berklee College of Music in Boston.

The Bernankes were one of the few Jewish families in Dillon and attended Ohav Shalom, a local synagogue; Bernanke learned Hebrew as a child from his maternal grandfather, Harold Friedman, a professional hazzan (cantor), shochet, and Hebrew teacher.

The family moved to Dillon from New York in the 1940s. Bernanke's mother gave up her job as a schoolteacher when her son was born and worked at the family drugstore. Ben Bernanke also worked there sometimes.

The Bernankes have two children, Joel and Alyssa. He is an ardent fan of the Washington Nationals baseball team, and frequently attends games at Nationals Park. When Bernanke left Stanford to accept a position at Princeton, he and his family moved to Montgomery Township, New Jersey, in 1985, where Bernanke's children attended the local public schools. Bernanke served for six years as a member of the board of education of the Montgomery Township School District.

# Academic

Bernanke was educated at East Elementary, J.V. Martin Junior High, and Dillon High School, where he was class valedictorian and played saxophone in the marching band. Since Dillon High School did not offer calculus at the time. Bernanke entered Harvard College in 1971, where he lived in Winthrop House, as did the future chief executive officer of Goldman Sachs.

He received a Ph.D. degree in economics from the Massachusetts Institute of Technology in 1979 after completing and defending his dissertation, Long-Term Commitments, Dynamic Optimization, and the Business Cycle. Bernanke's thesis adviser was the future governor of the Bank of Israel, Stanley Fischer, and his readers included Irwin S. Bernstein, Rüdiger Dornbusch, Robert Solow, and Peter Diamond of MIT and Dale Jorgenson of Harvard.

Bernanke taught at the Stanford Graduate School of Business from 1979 until 1985, was a visiting professor at New York University and went on to become a tenured professor at Princeton University in the Department of Economics. He chaired that department from 1996 until September 2002, when he went on public service leave. He resigned his position at Princeton July 1, 2005.

# Government career

Bernanke served as a member of the Board of Governors of the Federal Reserve System from 2002 to 2005. In one of his first speeches as a governor, entitled "Deflation: Making Sure It Doesn't Happen Here", he outlined what has been referred to as the Bernanke doctrine.

As a member of the board of governors of the Federal Reserve System on February 20, 2004, Bernanke gave a speech in which he postulated that we are in a new era called the Great Moderation, where modern macroeconomic policy has decreased the volatility of the business cycle to the point that it should no longer be a central issue in economics.

In June 2005, Bernanke was named chairman of President George W. Bush's Council of Economic Advisers, and resigned as Fed governor. The appointment was largely viewed as a test run to ascertain if Bernanke could be Bush's pick to succeed Greenspan as Fed chairman the next year. He held the post until January 2006.

Ben Bernanke began a second term as chairman of the Board of Governors of the Federal Reserve System in February 2010. He originally took office as chairman in February 2006, when he also began a fourteen-year term as a member of the Board of Governors. His second term as chairman ended in January 2014 when he was succeeded by Janet Yellen.

Over the years, Bernanke has served the Federal Reserve System in several roles. He was a member of the Board of Governors from 2002 to 2005.

# Chairman of the US Federal Reserve

On February 1, 2006, Bernanke began a fourteen-year term as a member of the Federal Reserve Board of Governors and a four-year term as chairman (after having been nominated by President Bush in late 2005).[41][42] By virtue of the chairmanship, he sat on the Financial Stability Oversight Board that oversees the Troubled Asset Relief Program. He also served as chairman of the Federal Open Market Committee, the System's principal monetary policy making body.

As chairman of the Board, Bernanke led the Federal Reserve’s response to the financial crisis of 2006–10 and Great Recession. During his tenure the Federal Reserve took unprecedented steps to implement quantitative easing, a process whereby the central bank purchased billions of dollars of mortgage-backed securities and long-term treasuries to stimulate economic growth.

# US Financial crisis

As the Great Recession deepened, Bernanke oversaw some unorthodox measures. Under his guidance, the Fed lowered its funds interest rate from 5.25% to 0.0% within less than a year. When this was considered insufficient to abate the liquidity crisis, the Fed initiated quantitative easing, creating $1.3 trillion from November 2008 to June 2010 and using the created money to buy financial assets from banks and from the government.

On August 25, 2009, President Obama announced he would nominate Bernanke to a second term as chairman of the Federal Reserve. In a short statement on Martha's Vineyard, with Bernanke standing at his side, Obama said Bernanke's background, temperament, courage and creativity helped to prevent Great Depression in 2008.

# Nobel Prize

The Royal Swedish Academy of Sciences awarded the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2022 to Ben Bernanke for his groundbreaking research on banks and financial crises. Bernanke shares the prize with Douglas Diamond of the University of Chicago and Philip Dybvig of Washington University in St. Louis.

The foundations of modern banking research were laid by Ben Bernanke, Douglas Diamond and Philip Dybvig in the early 1980s. Through statistical analysis and historical source research, Bernanke demonstrated how failing banks played a decisive role in the global depression of the 1930s. Bernanke’s research shows that bank crises can potentially have catastrophic consequences. This insight illustrates the importance of well-functioning bank regulation. Modern banking research clarifies why we have banks, how to make them less vulnerable in crises and how bank collapses exacerbate financial crises.

By 2009, Bernanke was at the Fed. And the professor with a specialty in the Great Depression, was in charge at the height of the Great Recession. Chairman Bernanke went about stabilizing the economy with low interest rates, bank bailouts and other remedies.

# Economic views

Bernanke has given several lectures at the London School of Economics on monetary theory and policy. He has written two textbooks: an intermediate-level macroeconomics textbook coauthored with Andrew Abel

With his predecessor, Alan Greenspan, looking on, Chairman Ben Bernanke addresses President George W. Bush and others after being sworn into the Federal Reserve post. Also on stage with the President are Mrs. Anna Bernanke and Roger W. Ferguson Jr., Vice Chairman of the Federal Reserve.:

Bernanke has cited Milton Friedman and Anna Schwartz in his decision to lower interest rates to zero. Anna Schwartz, however, was highly critical of Bernanke and wrote an opinion piece in The New York Times advising Obama against his reappointment as chairman of the Federal Reserve. Bernanke focused less on the role of the Federal Reserve and more on the role of private banks and financial institutions.

# Conclusion

A lifelong fascination with the role of banking in the economy led Bernanke to dedicate himself to ensuring that the mistakes of past monetary policy makers not be repeated. His consistency and dedication on these matters lend credence to the claim that he is genuine in his professed understanding of economics, history, and policymaking and in his desire to improve lives.

In the introduction to his book Essays on the Great Depression, Bernanke claims that there is a consensus among macroeconomics that free markets are best for achieving economic growth but that central intervention is sometimes necessary to avoid some unwanted consequences of unbridled capitalism, like recessions.

But we can take full advantage of the capitalist system’s beneficial properties under an interventionist regime that allows us to avoid some of the costs of recessions as long as the “will to do so” exists. He could not have known it then, but the will to do so will critically depend on the perceived success of his own policies over the course of the Great Recession.

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